

### **FHA Appraisal Frequently Asked Questions**

Q: How many comps are required on an FHA appraisal?

A: You should have at least 3 comparable sales. More if needed.

Q: Mortgagee Letter 2005-02: States adjustment for each comparable sale must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions. Does this mean we deduct the total dollar amount of seller concessions from each comparable prior to adjusting for other factors?

A: No. Adjust for the market's reaction to the difference. This is not necessarily the dollar amount of the concession.

Q: In Florida are painted concrete floors acceptable? Underwriters are saying yes?

A: Yes.

Q: I am asking do a 1004D final inspection on an appraisal I did not complete. The work is complete, but the homeowner has since removed the floor covering and the vanity in the guest bath. Can I complete the order, but state these items were removed although the original appraiser did not make not indicate that the items were in need of repair?

A: No, the house was appraised with the estimated value at the time of the appraisal based on those items being found to be satisfactory and meet HUD's minimum property standards at the time of the appraisal.

Q: Where can we find the most recent publication that defines all FHA appraisal guidelines?

A: FHA appraisal guidelines are found in HUD Handbook 4150.2, and recent mortgagee letters. These are available at the following web site under the heading "Mortgagee Letters & Handbook for Roster Appraisers." [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/appr/apprmls](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/appr/apprmls)

Q: Can you please verify, should an appraisal be subject to installation of water heater straps and carbon monoxide detectors, or which States are required to have a Carbon Monoxide Detector in properties?

A: Not an FHA requirement. Check with local jurisdiction for code requirements.

Q: Can an appraiser not complete a report and state the home should be torn down on an addendum to the Client?

A: Contact your client (Lender) to determine how to move forward on this. You either perform an appraisal report for FHA, or the lender may want to consider this as a non-FHA type and ask to submit some other form of documentation. In completing the report, you must consider Highest and Best Use and whether or not the property has remaining economic life to meet the mortgage term.

Q: Can you find on the HUD website the list of approved lenders for EEM mortgages?

A: Please go the following website. <http://www.hud.gov/ll/code/llslcrit.cfm>

Q: Can the roaster appraiser co-sign with the non-roaster appraiser.

A: An FHA appraisal must be signed by only the assigned appraiser.

Q: Is the restriction on the use of trainees set by statute or by FHA policy?

A: HUD policy is that only the assigned roster appraiser shall sign the report. Trainees can be used with their specific participation/duties outlined in the addendum of the report.

Q: What if the accessory dwelling unit has a full kitchen?

A: are commonly understood to be a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

Q: How do you break down on page 2 of the appraisal an in-laws quarter?

A: You can do so in a manner that clearly expresses your analysis. This might mean including it on one of the blank lines of the comparable sales grid and providing detailed comments, and adjustments if necessary.

Q: If there is a legal Manufactured House on the lot with a stick built house, how is the appraisal written? As a 2-4 unit or 1 plus ADU?

A: The appraiser must determine if it is a single family home with ADU, or a 2-4 family property. In either case the 1004 and the pertinent pages of the 1004D will have to be appended into the report.

Q: What if in a rural area & cannot find any comps for a manufactured home on land within the last 12 months & within 50 mile radius?

A: HUD requires at a minimum two of the comparable sales be manufactured homes. Without similar comparable sales, how can you estimate value and prove marketability?

Q: Is vinyl skirting ok on a mobile home?

A: Yes, however it must be contiguous and be installed in accordance with our policy as set forth in ML2009-16. In addition, the term "Mobile Home" refers to pre-1976 manufactured housing, which is not eligible for FHA insured financing.

Q: If an ADU can be rented it is to be considered a Duplex?

A: Not necessarily. FHA now allows ADU's to be rented. The appraiser must consider Highest and Best Use and actual zoning and current use.

Q: Do all additions have to be permitted?

A: The FHA appraiser must only appraise the property they are observing and not enforce, interpret or determine building code. If there are health or safety issues observed, then only disclose those that are observed. Leave the code to a home inspector and the lender to deal with this.

Q: An SFR has a detached unit being used as guest quarters (bedroom & bath) though it is not permitted. I am calling this finished storage, but should utility service be disconnected as a condition?

A: Only if it is a non-qualifying manufactured home.

Q: Enclosed patios, when can they be included in GLA?

A: Patios are typically not considered GLA. If the patio is finished and fully insulated, has heat and electricity, and completed in a similar manner to the rest of the house, the area can be considered in GLA.

Q: Must the appraiser state on the appraisal form the property conforms to 4150.2 and 4905.1 or meets HUD's minimum property requirements??

A: No. FHA does not require this statement to be on the report.

Q: Where do you get a statement of insurability?

A: For REO properties, the statement of insurability is covered on pages A-3 and A-4 of HUD Handbook 4150.2. The Statement of Insurability, in bold font, must be included in the Comment section of the appraisal report.

Q: Can you clarify transfer of appraisal reports to a new lender, or if a FHA case # is transferred to a new lender can that new lender request revisions to the appraisal with the appraiser?

A: See ML2009-29, Appraisal Portability.

Q: If the purchase price has been renegotiated to meet the appraised value....the Underwriter does NOT need to have it corrected on the appraisal...correct??

A: That is correct. The appraisal does not have to be changed.

Q: Does FHA require photos of the bathrooms, bedrooms, or other interior spaces?

A: FHA does not require interior photographs, but interior photos may be a lender requirement. However if the appraiser notices deficiencies or repair requirements, a photo of the issues should be included in the report.

Q: Can comp photos have people in them?

A: No. This is a violation of HUD policy.

Q: On FHA Appraisal photos, do the active listings need to be original photos?

A: FHA does not require photos of active listings.

Q: Are photos required for attics?

A: No, FHA does not require attic photos. However, this may be a lender requirement.

Q: We have a property with 3 parcels and home is only on 1 parcel, total of 5 acres. Is this home eligible for FHA financing?

A: If the parcels are contiguous, were conveyed on the same deed, are under identical ownership, and function as a single real estate entity, the mortgage can encumber all 3 parcels. However, the appraiser needs to follow HUD's requirements regarding excess land. If the two other parcels (or any other portion of the property) are excess land, they cannot be included in the valuation even though the mortgage can encumber that portion of the property.

Q: Please describe FHA's definition of "Safety". If I have a code problem which is a fire hazard, should I just disclose it in the report as-is or require to be fixed?

A: If there is a fire hazard, it is definitely a safety problem and considered a threat to health and safety of the occupants as well as to the structure. Any threat to safety or structure requires that the appraisal be completed as "subject to" repair or inspection.

Q: Does FHA have any requirements regarding number of homes on shared well?

A: FHA allows up to four properties on a shared well. In addition, there must be a shared well agreement, and shut off valves to each dwelling as the water feed leaves the well.

Q: The last seminar mentioned that we did not have to measure distances for well and septic. But now you post the distances as though we must measure. Which is correct?

A: Sketching, or reporting the actual distances is not a HUD requirement, however the appraiser should be mindful of the distances and verify that they are met. If unable to determine, the appraisal should be made "subject to", then the underwriter must arrangements for proper verification.

Q: If a house is built before 1978 and has peeling paint on any improvements, fence, garage, or house, etc., but has already been lead paint abated what should be required.

A: The FHA appraiser looks at each home to determine if there is currently any peeling, chipping or cracking. If there is peeling, chipping paint, then the appraiser will require repair and proper disposal of paint chips regardless of a previous report.

Q: Can a homeowner scrape and paint over peeling paint in a home built before 1978? Do not need a certified lead abatement company?

A: No. If the homeowner does the scrapping and painting, it can be inspected by the appraiser or anyone the DE underwriter selects.

Q: Can a lender escrow (holdback) for Exterior paint repair on a home built prior to 1978 in areas of the country where there is extreme weather?

A: No, escrow is not allowed for lead based paint issues.

Q: Property has had drywall damage repaired, but not painted. Is this considered cosmetic?

A: Please refer to Mortgagee Letter 2005-48. In cases that are cosmetic, the FHA no longer requires repairs.

Q: How does the appraiser handle the valuation of a non-habitable basement room?

A: The appraiser should note and describe the area, but does not have to give value if no value is indicated by the market. It would probably be accounted for in basement area.

Q: The appraiser notes a crack in the exterior foundation and basement wall. Should he just note it or require in engineer's report to clear?

A: The appraisal should be done "subject to" an engineer or architect inspection.

Q: What appraisal form is required for a detached/site condo, 1004 or 1073?

A: Form 1073, see ML2011-22, Condominium Project Approval and Processing Guide:

Q: In the case of snow covered roofs does FHA require a comment indicating such, and how do I comply with HUD/FHA requirement to access roof condition when it is not entirely viewable?

A: Yes. When an appraiser cannot inspect the entire roof due to snow coverage or other conditions, he/she must disclose in the report that it was not viewable and make a very thorough inspection of the attic space and inside the dwelling for any signs of failure (which should be done on all appraisals anyway).

Q: Roof condition and structural sound assessment may be best determined by a contractor or engineer; please explain HUD/FHA-required appraiser requirement and potential liability inspecting/commenting outside our area of expertise.

A: HUD requires at least a two year life expectancy on roofs. When viewing the roof from the ground: if the appraiser finds excessive curling or breakdown of the shingles, or missing/broken shingles, or evidence of failure in the attic space or inside the dwelling, the appraiser should call for an inspection making the appraisal subject to that inspection.

Q: What if attic scuttles are not accessible due to no way to access the scuttle...i.e. no ladder or other safe access.

A: Appraisers are expected to carry their own ladder to properties. If the attic space is not accessible, you would make the appraisal subject to the attic space being made available, not "as is". It is then up to the lender to make arrangements for the inspection.

Q. If appliances are in but not working can we just do it as-is or do they need repairing, I have been told in the past if they are in they need to work, but appliances are not mandatory.

A. Appliances are not required for HUD insured properties, however if absent or not working, the appraiser should consider effects on marketability. These are considered market driven and an adjustment may be warranted. If they are part of the contract, they must be repaired. If these are considered part of the real estate, please make a repair requirement.

Q. Regarding cost to cure items...why does the lender want cost to cure? And what if my estimate is off one way or the other?

A. The cost to cure helps convey your observations and give the lender a realistic idea of the estimated value in relation to the items that need repair. It is understood to be an estimate.

Q: Are gfi outlets required in older two wire housing?

A: FHA does not require GFIs.

Q: Light fixture was removed in bathroom so there is a recessed box with electrical wires in it. They are capped. Is this cosmetic or should the appraisal be subject to repair?

A: As long as the entire junction box is closed off, it may not be a safety problem, however if there is no other light source, it may be a safety concern. You should call for repair/replacement, and make the appraisal "subject to" that repair. The effect on marketability should also be analyzed and accounted for.

Q: What should you do if there aren't any comps located in a new subdivision...so the very first home sold is for the subject?

A: Comparable sold properties in other proximate, similar subdivisions may be used if you can determine market support.

Q: Is the only way to get a 4150.2 complete manual to print it on line?

A: You can print it to a PDF file and save it on your pc.

Q: Does HUD have any requirements regarding Water Heaters, being strapped or connected to a drain line?

A: No. However if your local jurisdiction, or building code calls for it, you should make it a requirement.

Q: What is the requirement for flipped properties in less than 90 days?

A: Please see our policy on the flipping waiver which has been extended through 12/31/2014 at the following link: <http://www.gpo.gov/fdsys/pkg/FR-2012-11-29/pdf/2012-28918.pdf>

Q: I have a new construction over 90% complete. The original appraiser is calling for a final inspection. Is form 92051 correct and can it be performed by the original appraiser? My understanding is it cannot.

A: The Compliance Inspection Report can be performed by anyone the underwriter deems eligible to complete the form who is a roster appraiser or an FHA Fee Inspector.

Q: How much moisture is allowable in a crawl space as they inherently have some moisture due to their location below grade and with small amounts of ventilation?

A: Any sign of moisture or dampness found in a crawlspace should require further inspection to determine the cause of the problem. All crawlspaces should be adequately ventilated.

Q: Regarding choice of comps for situations that are non-new construction. Does proximity overrule the similarity of property? Meaning are appraisers required to go with the closest to the subject and then compensate up or down rather than use judgment if there is an exact match that is not the closest but within less than 5 miles?

A: Truly comparable properties in the subject's marketplace must be used. You must be competent to do an appraisal in the subject's market. The subject's immediate market place will likely be effected by buyers, as reflected by why buyers choose one neighborhood over another. If the subject is over or under improved for its neighborhood, you must disclose, analyze, and support any adjustments you make to the comparable sales used.

Q: Can a new comparable sale be considered on a completed appraisal assignment, if the sale closed after the effective date? Or would this be a valid reason to be able to get a new 2nd appraisal to use for the loan transaction? Or are we stuck with the 1st appraisal?

A: No, and no. The effective date of the appraisal cannot be changed; you cannot use sales that occurred after the effective date. You cannot order a second appraisal.

Q: If a property has a pool that is not working, appraisal done with conditions. Can the Underwriter require it to be in working condition or is it OK to at least be filled with water?

A: Non-working, empty pools must be secured either by fixing the issue and making the pool operable, or covering the pool adequately so no one can fall in.

Q: For a 203k the appraisal must be made based on the proposed repairs and subject to the proposed updating. A Client demanded that I place an as is value in the appraisal.

A: The appraiser is required to perform an "as-repaired" appraisal subject to the completion of the proposed rehabilitation and/or improvements are complete. A lender may also request an "as-is" appraisal to be recorded on a separate URAR. Under an "as-is" appraisal, the subject property is appraised in its present condition to establish the value before rehabilitation. (4150.2, Appendix B).

Q: How many smoke detectors does FHA require?

A: Not a HUD requirement.